

MONTHLY UPDATE

OCTOBER 2023



Sar utha ke jiyo!

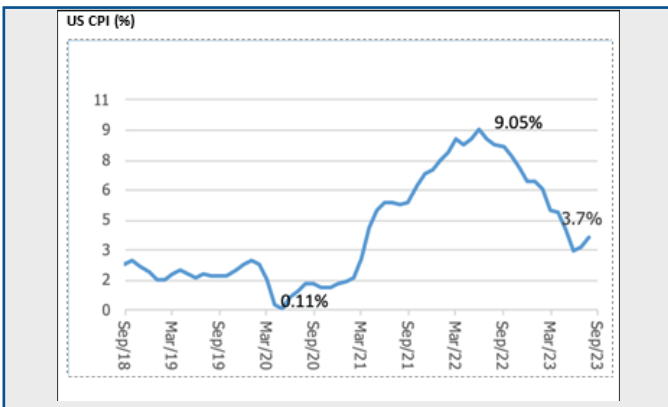
Market Outlook

HDFC Life - Monthly Update (November 2023)



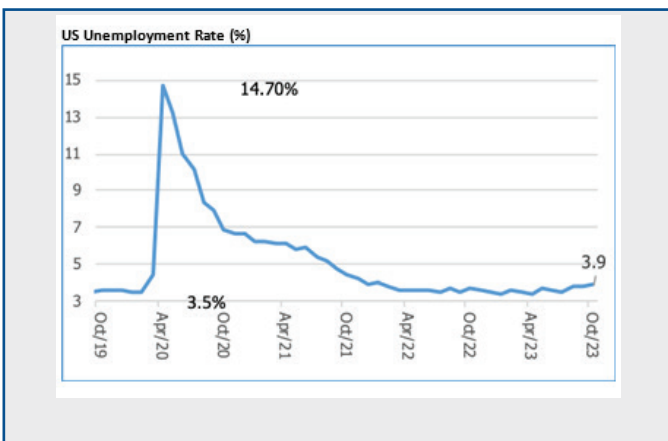
Global Macro Review

US CPI (%)



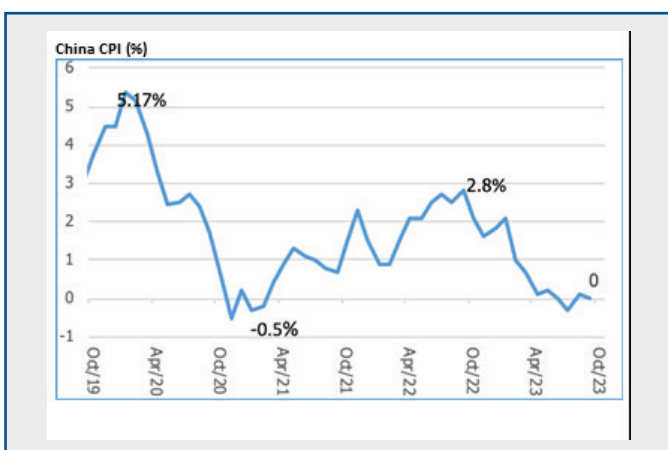
- US CPI for Sep'23 came in at 3.7% YoY, unchanged from the previous month. On a MoM basis, it rose by 0.4% MoM higher than 0.3% expected. The uptick in sequential momentum was caused by a sharp rise in energy prices and shelter inflation also rebounded in the month.
- The FOMC maintained status quo on expected lines while it retained its tightening bias. The key change since the last policy meeting was on the acknowledgement of the role that financial conditions are likely to play in restraining activity. However, the FOMC emphasized that a restrictive regime needs to remain in place for a considerable period of time to ensure that further rebalancing of the labour market and disinflation pressures gets entrenched.

US Unemployment Rate (%)



- The US unemployment rate moved higher to 3.9% in October from 3.8% in September. Signs of rebalancing of labour market seem visible due to moderation in the pace of growth in average hourly earnings.
- US NFP surprised meaningfully on the downside printing at 150K (expectations:180K). Also payrolls figures for the previous two months were revised lower by 101K with the source of the revision coming from slowdown in the private sector hiring indicating that cracks in labour markets are showing up more prominently. Hiring in all other major service sector fell sharply on a sequential basis which indicates that the economy is weakening.

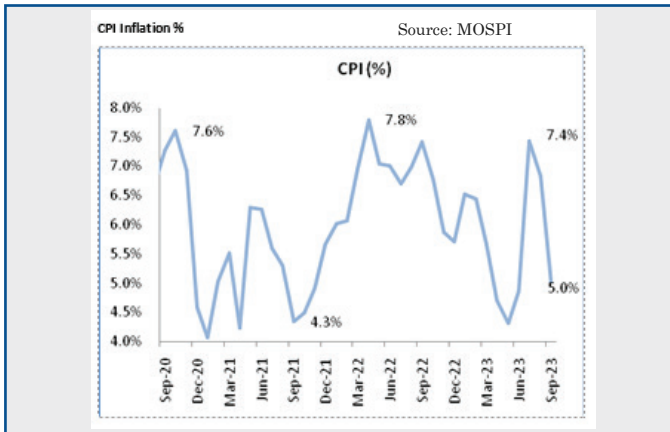
China CPI (%)



- Chinese CPI came in at 0.0% YoY for the month of Sep'23 Vs 0.1% in the previous month. The latest data indicates persistent deflationary pressure and raises concern about the sustainability of the economic recovery due to sluggish demand, weak property sector and soft investment.

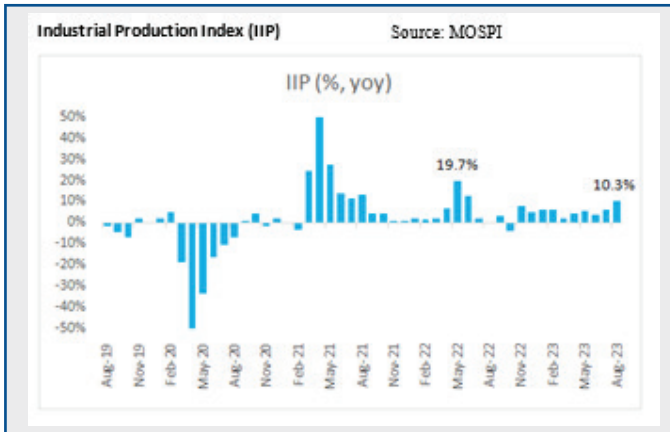
India Macro Review

CPI Inflation %



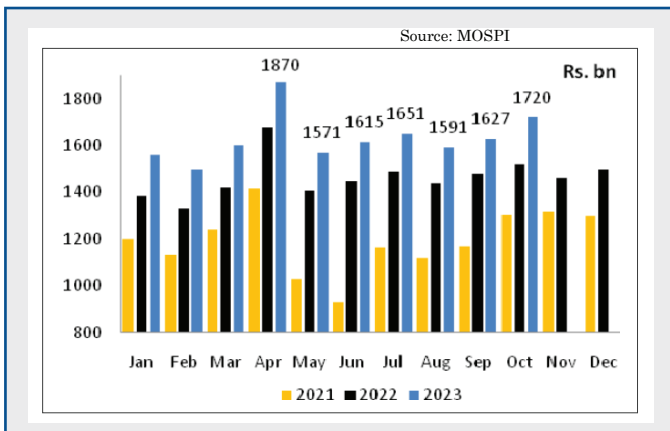
- Inflation (CPI) for Sep'23 stood at 5.02% vs 6.83% in Aug'23 as food CPI which constitutes the 45.9% has eased to 6.3% in Sep'23 from 9.2% in Aug'23. Within food, inflation for Pulses, Spices and Cereals remains elevated.
- Fuel inflation which constitutes 6.8% of the CPI contracted by 0.1% in Sep'23 vs. 4.3% up in Aug'23.

Industrial Production Index (IIP)



- Industrial Production (IIP) growth for Aug'23 came at 10.3% vs. 6% growth during Jul'23 as Manufacturing output (9.3% in Aug'23 vs. 5% in Jul'23), Mining output (12.3% in Aug'23 vs. 10.7% in Jul'23), Electricity output (15.3% in Aug'23 vs. 8% in Jul'23) have accelerated sharply.
- The increase in the Industrial production index reflects the gaining momentum in production activities. Monthly IIP nos can be volatile and difficult to draw a trend from the same.

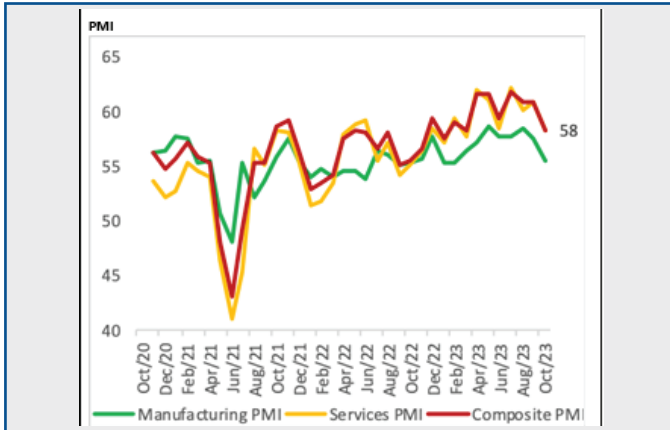
GST Collection (Rs. b)



- GST revenues for the month of Sep'23 came at Rs. 1,720bn showing a 13.4% YoY as CSGT (15.4%), SGST (14.3%) and IGTS (11.7%) increased sharply.
- Avg. monthly GST collections have increased to Rs. 1.7 lakh crore in 10M FY24 vs. Rs. 1.5 lakh crore in 8M FY23 and Rs. 1.2 lakh crore in 8M FY22 continuing to display very high buoyancy.

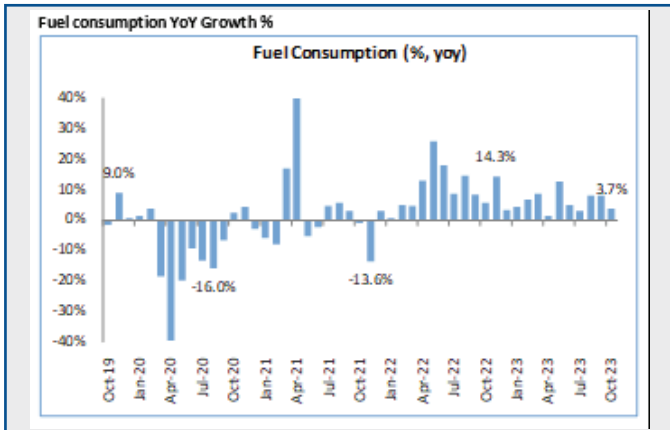
India Macro Review

PMI



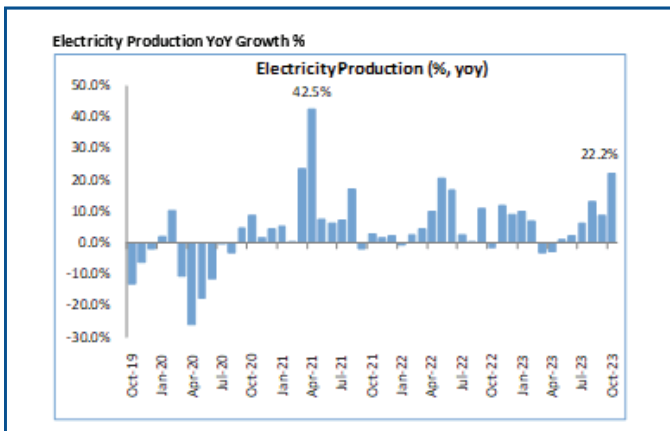
- PMI (manufacturing) eased to 55.5 in Oct'23 from 57.5 in Sep'23. However, PMI is still in expansion zone (≥ 50) suggesting the continued strength in orders pipeline, production and despite a slowdown being seen in the exports.

Fuel consumption YoY Growth %



- Fuel consumption grew by 3.7% in Oct'23 vs. 8.1% growth in Sep'23. Within fuel category, consumption for petrol and diesel grew 9.3% and 4.8% respectively.

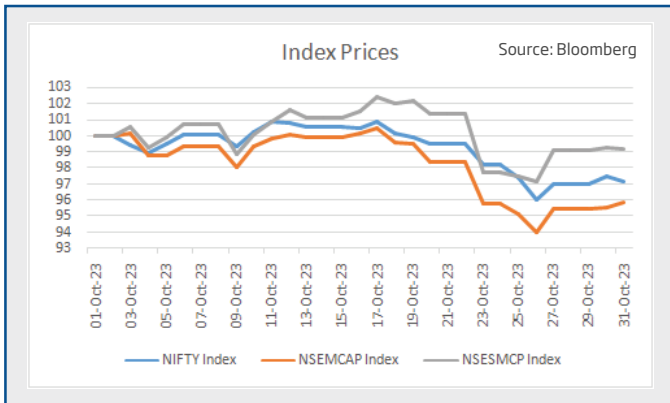
Electricity Production YoY Growth %



- Electricity production up 22% YoY in Oct'23 vs. 8.8% YoY in Sep'23.
- The jump in electricity production was due to festive demand, a weak base and higher temperatures in most parts of the country.

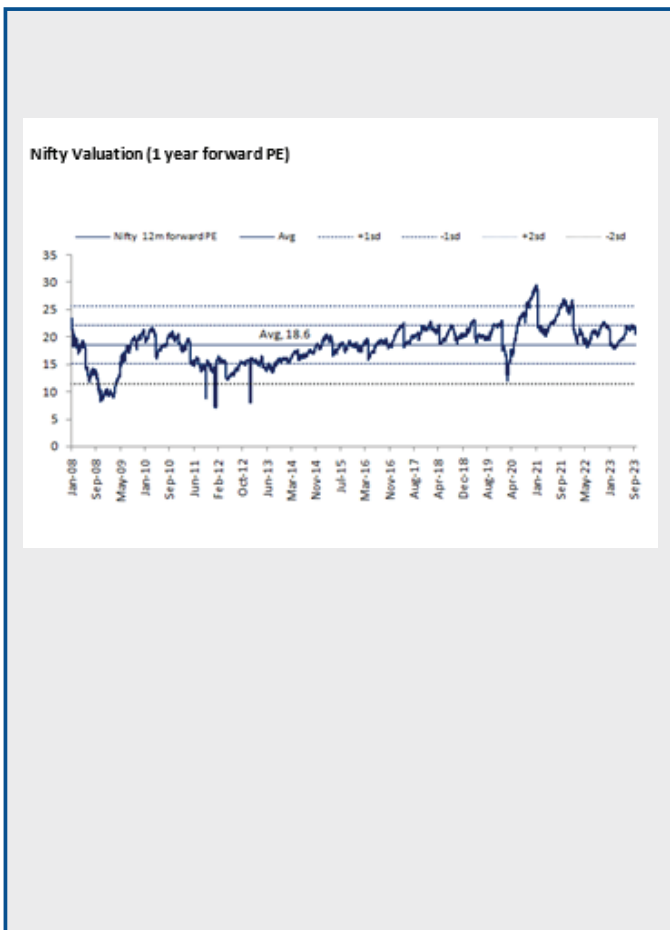
Equity Outlook and Positioning

Monthly Index performance



- Equity markets posted negative returns in Nov'23 with small cap indices outperforming midcaps and large caps. Nifty 50 closed the month with a return of -3% while CNX Midcap Index gave a return of -4% and Small Cap at -1%.
- Outperforming sectors included Real Estate, FMCG, Consumer Durables and Automobiles while Metals, Pharma, Capital Goods, Power, Oil & gas, Banking and IT and were the underperforming sectors.

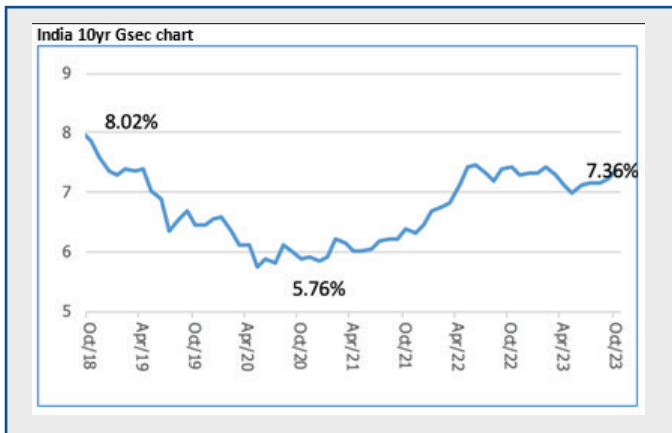
Nifty Valuation (1 year forward PE)



- In the ongoing Q2FY24 result season, while there hasn't been a material cut in overall Nifty earnings, the trends at a sectoral level have been mixed. Financials continued with their good performance on growth and asset quality but have now started showing moderation in NIMs. IT companies had another weak quarter with most companies reporting a subdued revenue performance. Order booking, however, was quite strong but with execution timelines getting elongated, the commentary on outlook was still cautious and weak. Consumer facing sectors including Auto, Staples and Discretionary have continued to report an improvement in margins, aided both by price hikes kicking in and stability in commodity.
- Nifty earnings over FY23-25 are now expected to grow at a CAGR of 13.8%. Nifty is currently trading at a valuation of 19.8x FY24 and 17.7x FY25. 1-yr forward valuations are higher than long term averages. Given the headwinds of weak domestic demand, a challenged global macro with some signs of financial stress and an uncertain inflation outlook, we continue to be cautious in the short term. However, we would be optimistic from a medium to long term point of view as we expect a cyclical recovery in the economy and earnings after several years of sub-par growth.

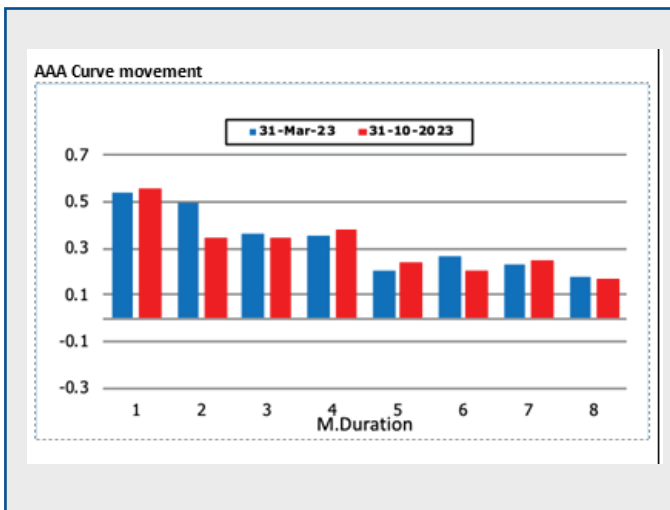
Debt Outlook and Positioning

India 10yr Gsec chart



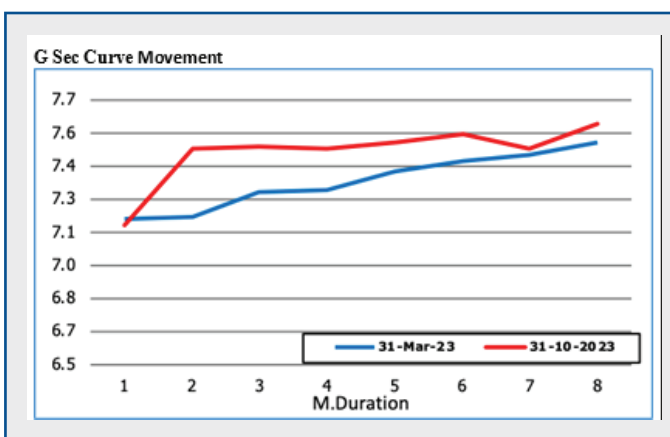
■ US bond yield continued to rise largely driven by fear of spill over in conflict between Israel and Hamas, which could embroil Iran and its allies in the region and thus affecting crude price. The US 10 yr yield touched intra month high of 5.02%; however war risk premium fizzled out as the escalation was less extensive than many expected. The US treasury yield retraced and closed at 4.93% for the month rising 36 bps during the month, from 4.57% at the end of the previous month.

AAA Curve movement



■ In India, the 10yr benchmark yield rose by 15bp from 7.21% to 7.36% largely due to fear of OMO sales which RBI had mentioned in its last policy statement. The reference to OMO sales increased the level of uncertainty in the market.

G Sec Curve Movement



■ However over the medium term, as the lagged impact of rate hikes kick in, it will weigh on the growth momentum and the incremental data from US will likely be softer than previous quarter, which may pivot FOMC from its current rate hike cycle. Indian Fixed income markets are likely to take global cues along with evolving domestic inflation trajectory



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